

People Serving People

PAINESVILLE



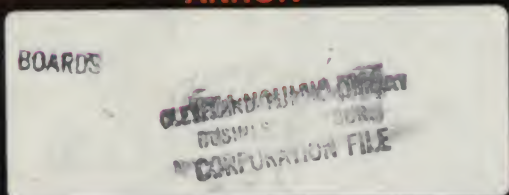
CLEVELAND



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Blue Cross
of Northeast Ohio

1979 Annual Report

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Cover

*Reaching out to the population
in our 11-county service area . . . our
commitment is to provide the best health
care protection for people of all ages.*

*In 1979, as the 14th largest Blue Cross
Plan in the nation, we protected 1.7
million subscribers under 724,667
contracts. Our enrollment covered half
the population in Northeast Ohio.*

Serving 1.7 Million People in 11 Counties

Ashland... Ashtabula...
Cuyahoga... Geauga...
Lake... Lorain... Medina...
Portage... Richland...
Summit... Wayne...
City of Willard
in Huron

Regional Office Information Representatives



Janet Nyare
Painesville Office



Judy Hannibal
Elyria Office



Phyllis vanHarlingen
Mansfield Office



Joyce Morton
Akron Office

Blue Cross of Northeast Ohio recorded many significant achievements during 1979.

Some of the major achievements, particularly in the area of cost containment, are summarized in our official Annual Statement appearing on the next two pages.

They were made possible because of the efforts and commitment of all of our employees—1050 persons dedicated to serving people.

We are proud of their work and we express our appreciation as we, in turn, dedicate this 1979 Annual Report to them.

Donald R. Riordan Sr.

Donald R. Riordan Sr.
President
Blue Cross of Northeast Ohio

DEDICATION

To our subscribers
and the communities
we serve . . .

Cost Containment Remains a Priority

Blue Cross of Northeast Ohio continued during 1979 its corporatewide campaign to achieve cost effectiveness, cost containment and cost control, both internally and externally.

As in the past, our Plan has used financial incentives, financial disincentives, education and persuasion to attain its goals ranging from the elimination of unnecessary hospital beds to the promotion and experimentation of alternative forms of health care.

Our wide-ranging activities are detailed in seven volumes which we submitted to the Ohio Department of Insurance when we filed our "compliance" documentation last year.

We are pleased to report that for the second year in a row, our Blue Cross Plan was strongly commended "for its continuing efforts to affect the elimination of excess beds." This commendation for our 1979 activity was contained in the general comments of a hearing officer's report to the Insurance Department. It was issued following a public hearing in January of 1980 on the Plan's request for rate and benefit adjustments for non-group subscribers.

A Brief Review of Accomplishments

Equally noteworthy, in 1979 we extended our campaign to reduce the number of empty hospital beds and to phase out unnecessary and duplicative services to include our entire 11-county service area.

We also intensified our promotion of alternatives to inpatient care such as PreAdmission Testing, Ambulatory Surgery, Psychiatric Outpatient and Day Care Services, Post Discharge



Testing and Coordinated Home Health Care. In addition, we started a Hospice program and programs related to payment for benefits in ambulatory health care facilities.

The PreAdmission Testing Program, designed to reduce the number of inpatient days prior to surgery, is gaining wide public support. For example, during the years 1977 through 1979, use of the program has increased by 300%. We expect another 35% increase this year.

This positive response to less costly outpatient care programs has resulted in a leveling off of inpatient cases during 1979 and a reduction in inpatient length of hospital stays and the use of inpatient days per 1,000. Conversely, the number of outpatient cases covered by our Blue Cross Plan rose by 9.3% in 1979.

Also, the increase in hospital costs in Greater Cleveland last year was slightly less than the increase in the consumer price index.

A New Incentive Program

In another major achievement, Blue Cross of Northeast Ohio in 1979 began offering hospitals financial incentives to encourage more effective use of energy.

Called the Energy Conservation Incentive program (ECI), it will reward participating hospitals which implement energy savings recommendations. Our incentive payments will help compensate hospitals for the costs of conducting energy audits to determine ways that their energy consumption can be reduced.

We are one of the leaders in a national effort by Blue Cross Plans to promote the sound management of energy resources. We have earmarked more than \$200,000 to assure the success of ECI and we are providing educational assistance to encourage hospitals to engage in energy audits.

To date, 25 hospitals are enrolled in the program, which we hope will lead to significant cost savings.

Internal Cost Control

While these are just some of the many external accomplishments which we recorded last year, we practiced cost containment within our own corporation as well.

For example, during the year 1979 with an annualized inflation rate of over 13% our Plan was operating with a budget only 7.5% greater than in 1978. This year's corporate budget is 7.9% higher than the 1979 budget despite an anticipated double digit rate of inflation.

As a result of these efforts, your Blue Cross Plan uses less than five cents of every dollar received for administrative expenses.

At this point another observation should be made. While we consider 1979 another year of significant cost containment accomplishments, it also marked the end of a decade which saw dramatic changes in the manner in which we conduct business.

Today, we are no longer dedicated only to providing quality health care protection at the lowest possible cost. In our role as a community service corporation, we have been deeply concerned about the health and welfare of the people we serve.

During the last few years we expanded this community commitment and we have stressed time and again the consumer's role in keeping health care costs in line. We have vigorously promoted healthier lifestyles, ranging from proper nutrition to the simple exercise of walking. That's why we have sponsored such public education programs as the Health Fairs, Health Run Spectacular, Parcourse, Corporate Health Education Conference, to name but a few of these vital programs.

We have also demonstrated our concern for the senior citizens who are covered under Medicare as we continue to support pending legislation in the U.S. Congress to freeze the Medicare deductible which the government has increased by 350% since 1966.

A Look Ahead

Finally, a word about the immediate future. The question most often raised is: Will health care costs continue to go up and by how much? It's a question that can be applied to almost any insurance carrier, utility company or other service industry.

The answer to the first part is "yes," but exactly by how much is hard to predict. Health care costs in general and hospital costs in particular are influenced by many factors including the general rate of inflation, the increasing costs of energy, salaries and utilization of hospital and medical services.

Based on the rapid economic changes in the past year and again in the past few months, these factors have become more or less unpredictable, making it more difficult to clearly project a percentage of increase. Nevertheless, we are optimistic that Greater Cleveland can keep the increase below the national average and most certainly below the general rate of inflation.

We, at Blue Cross of Northeast Ohio, will continue to do our best to contain these costs. We hope the community will support us in this uphill struggle.

H. Stephen Madsen

H. Stephen Madsen
Chairman
Board of Trustees
Blue Cross
of Northeast Ohio



Ray Keller's responsible for 50,000 people.

Meet **Ray Keller**, one of 30 marketing representatives for Blue Cross and Blue Shield in Northeast Ohio.

His job has changed significantly in the 28 years he has been selling Blue Cross and Blue Shield coverage to business and industry in the Plan's 11-county service area.

Unlike yesterday's sole basic contract, Ray today has a vast selection of benefit packages which enables him to accommodate the sophisticated health care protection needs of the 85 accounts he personally services and to assist prospective buyers. He is secure in the fact that he can offer the most comprehensive coverage available on today's market to meet the public's demands.

Changed, too, is the salesman's role for marketing specialists like Ray. No longer is it just a selling game for them.

For example in 1979 the Plan's salesforce added an impressive 43,000 new contracts and upgraded the level of coverage for an additional 105,000 subscribers in its 1979-80 goal to increase market penetration by 1%.

Ray is able to offer his accounts more than just a comprehensive plan of inpatient and outpatient benefits.

He can offer top management a total administration pro-

gram that provides: consultation to evaluate and design benefit programs compatible with a company's cost containment needs; financial management to balance a company's risk-taking steps to meet its cashflow position; management reporting to enable a company to oversee benefit design and administrative procedures; and professional assistance with special programs to control the cost of benefits and to receive added value for each health care protection dollar spent.

Yet with all of today's sophisticated marketing tools, Ray still considers dedicated service to his accounts a top priority—being there when it counts and resolving problems efficiently.

But as Ray will tell you, it takes many people to help him provide a quality product.

Supporting him are highly specialized marketing personnel in market research, claims inquiry, customer service, sales and development plus the expertise developed and refined for more than half a century by the national Blue Cross and Blue Shield Associations.

There are many other equally vital technicians who work behind the scenes to provide Ray and the marketing force with the tools they need to serve 1.7 million subscribers.

Meet some of those employees on the following pages.

Ray Keller

IN 1979

- Issued 43,000 new contracts
- Upgraded coverage for 105,000 contracts



Donna Miller

Customer relations—the public always comes first.

This is no easy goal considering that the Plan services approximately 43,000 subscriber visitors at our central and regional customer relations offices and answered nearly 605,000 telephone calls and 167,000 written inquiries.

Typical of our Customer Service team in contributing to the company's excellent service record are these three personable persons:

Information representative **Donna Miller's** warm personality and helpful manner are great assets to the assistance she lends subscribers visiting our main Information Center. Her friendly, pleasant attitude is typical of her coworkers who service the approximately 325 to 500 visitors weekly.

Like most of our representatives, a company background of practical, on-the-job experience in billing and claims areas enables Donna and other reps to provide subscribers with quick, direct information about claims and contract queries.

Tony Marcial of Subscriber Service is another team member

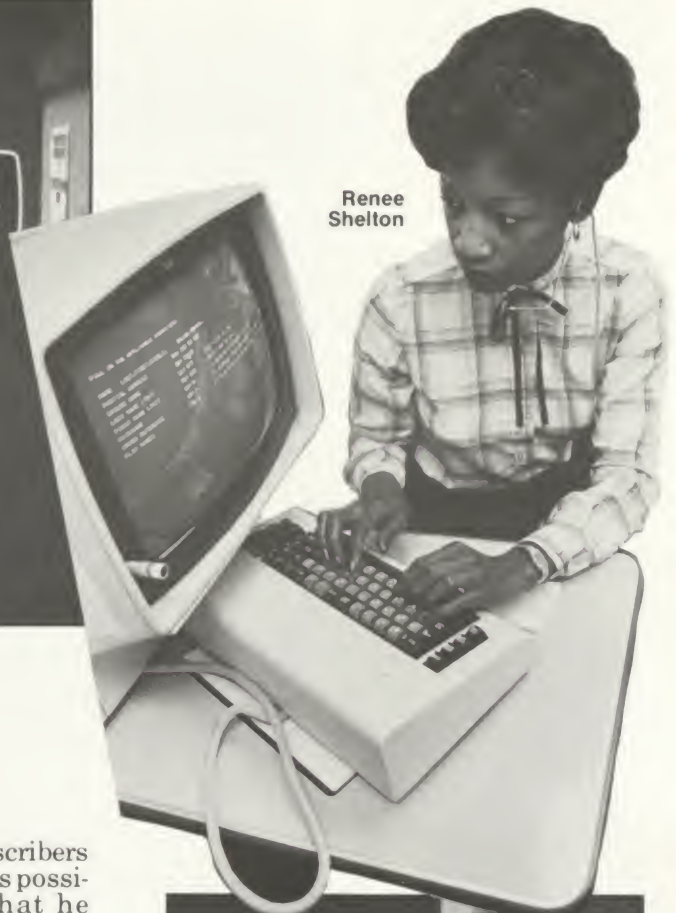
dedicated to assisting subscribers as precisely and rapidly as possible. His job requires that he respond to subscriber correspondence about contract difficulties. He takes great pride in giving personal attention to resolving each individual's problem.

The challenge of meeting and assisting so many different personalities is what intrigues telephone information representative **Renee Shelton**. She will extend her duties to the utmost during a subscriber call to avoid switching the customer needlessly to other service departments.

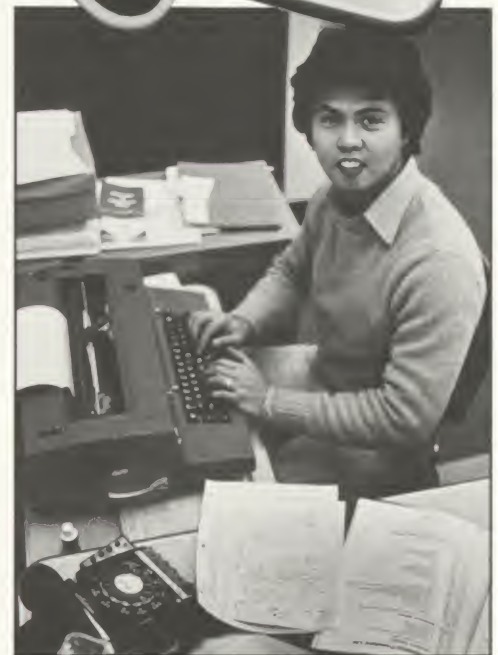
The Customer Service team made significant improvements in 1979—reduction in busy and lost calls plus expansion and consolidation of the division to include the Auto Contracts Desk and Major Medical information.

This year further consolidation of customer service areas will provide even greater quality control through new automated monitoring systems.

We are working all the time to provide you, the customer, with the best possible service because it's people like Donna, Renee and Tony who care about the people they serve.



Renee Shelton



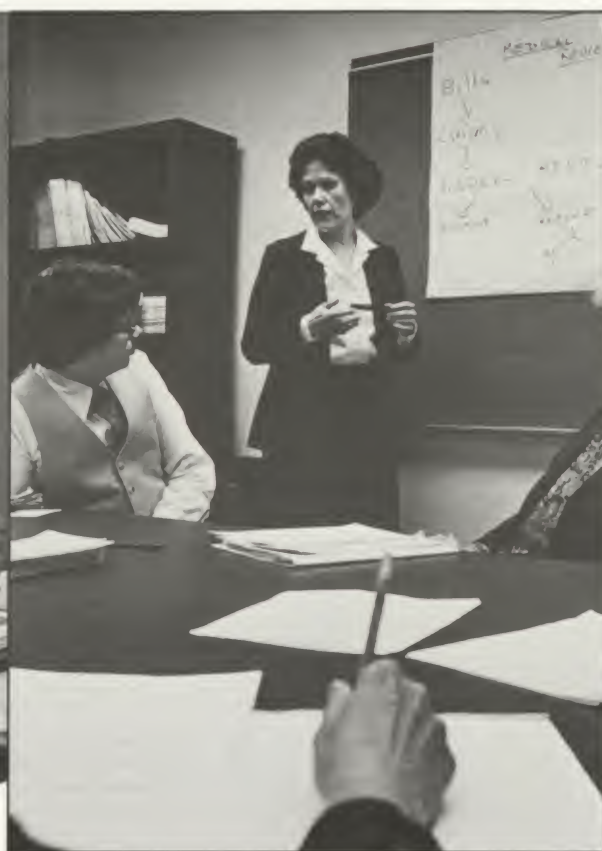
Tony Marcial

IN 1979

- Assisted 43,000 visitors
- Replied to 167,000 subscriber letters
- Responded to 605,000 telephone calls



Asif Ghazi



Marie Kerr, R.N.

Designing better benefit programs and new approaches to less costly, quality health care.

Sound business practices dictate constant reappraisal of current product lines. At Blue Cross of Northeast Ohio, benefits—in a sense, our products—are subject to continual revision and refinement.

Exciting advancements in technology are one force which shapes new benefits, but the actual task of documenting needs and building new programs is done by Plan health care analysts like **Asif Ghazi**. A soft-spoken scholar from India who is now completing an advanced degree in hospital administration, Asif researches and analyzes proposals for new, more cost-effective approaches to delivering health care.

He and the company's Provider Affairs staff worked in 1979 to promote and strengthen programs such as Coordinated Home Care, Preadmission Testing, Ambulatory Surgery and Post Discharge Testing. One indication of their success in designing effective, cost-saving outpatient benefits such as these is found in 1979 claims statistics.

The Plan paid nearly 629,000 outpatient claims last year, 89,000 more than just three years ago. Furthermore, 1979 marked a decrease of 11,000 of the more costly inpatient claims for the year.

While these outpatient programs are now visible alternatives to inpatient care, other programs are still in the painstaking research and development stages. For example, a program of home-care benefits tailored to the needs of terminally ill patients and their families is now under study.

These benefits are important, Asif explains, not only because they meet human needs, but because they offer the appropriate level of care without costly and unnecessary extras.

Other Plan professionals, like **Marie Kerr, R.N.**, of Medical Review, attack the problem of costs from another angle. Marie carefully reviews selected claims to ensure that the Plan does not pay for unnecessary patient care.



Euclid Clinic Foundation, Mentor Branch

It's the one out of five claims which she identifies for further study which demands her full expertise. Sifting through perhaps 40 pages of medical documentation, she prepares a detailed recommendation to a committee of doctors.

They review all the circumstances of the case to determine whether the care was necessary before releasing the claim for payment. Even this thorough process is subject to appeal and further review.

In the end, however, Marie's work saves subscribers real dollars because rates are based in part on how much the Plan spent for care the year before. Certainly no one wants to pay the cost of unnecessary health care.

Representing yet another approach to the ongoing effort for cost-effective solutions to health care problems is **Mimi Hornung**. As a sales representative for Blue Cross and Blue Shield Plans' Alternate Delivery Systems, Mimi calls on corporate decision-makers to explain the concept of a health maintenance organization (HMO).

In 1979 the Plans' first HMO, the Euclid Mentor Regional Health Plan with offices in Euclid and Mentor, began operations. The

program established firm footing with both large and small enrolled groups. Employees of TRW, Inc., the State of Ohio and General Motors Corp., among others, now have the option of signing up for this coverage which emphasizes preventive care for the whole family.

Mimi is enthusiastic about the advantages of HMO coverage and points out that preventive care is paying off in fewer inpatient days: EMRHP subscribers use less than half as many days-per-thousand-members as those covered under traditional contracts.

Though their jobs are quite different, Asif, Marie and Mimi each work toward a common goal—well-designed benefits which encourage responsible use of quality health care at the lowest possible cost.

IN 1979

- Saved \$60 million in cost containment programs
- Opened first health maintenance organization
- Added post discharge and coordinated home care benefit programs

Mimi Hornung



Darrell Robinson

Stringent auditing and claims review hold costs down.

Stephanie Sykes, Donna Hall and Darrell Robinson may perform different tasks, but each is committed to containing costs.

For **Stephie**, a claims examiner, and 153 other general and special claims personnel, this commitment means individually processing 400 claims daily—a guarantee that subscribers, providers and pharmacies are promptly reimbursed. Their efforts enabled the company to process a record 5.1 million non-Medicare claims in 1979.

By carefully reviewing claims, they were able to save subscribers \$10 million last year . . . claims were checked and rechecked to insure accuracy and to eliminate possibility of duplicate payments. The staff also implemented a new claims billing system that will decrease processing time to 14 days and increase accuracy. Another system is enabling them to process between 10,000 and 12,000 prescription drug claims daily.

Donna Hall, a Medicare claims examiner, realizes the tremendous responsibility placed on the company as a Part A (hospital) administrator for the government's Medicare program. She and her coworkers each diligently review some 400 claims daily for the 100,000 senior citizens enrolled in this coverage.

In 1979, Donna and the Medicare staff helped to process 371,163 claims amounting to \$285 million in benefits. Supporting them is one of the nation's most modern Medicare computer systems, linked to the Social Security Administration's computers in Baltimore. It can transmit and receive verification information on subscribers in seconds.



Donna Hall



Stephanie Sykes

Trained registered nurses compliment the Medicare claims area. They visit area providers to offer assistance with the government's complicated admission and billing procedures. They also conduct utilization reviews to insure that providers are in compliance with Medicare regulations.

Another familiar face to providers is **Darrell Robinson**, a junior auditor. As a member of an auditing team, he, too, is concerned with providers' operations.

For example, Darrell's hospital field reviews can recommend innovations to save hospitals

money through central purchasing, shared computer services or modern industrial management programs. These innovations, coupled with a strict adherence to Blue Cross and Medicare reimbursement formulas, help to contain costs for subscribers. These efforts are also assisting hospitals in meeting their Voluntary Effort cost containment goals.

A major energy conservation program implemented by Darrell's division in 1979 could save 25 participating area hospitals \$5 million. The Plan will help hospitals conduct energy audits and offer financial incentives to those hospitals that curb energy consumption.

It is the combined efforts of employees like Stephanie, Donna and Darrell that are helping the company to provide subscribers with quality care at the lowest possible price.

IN 1979

- Processed 5.1 million non-Medicare claims
- Recovered \$10 million through Other Carrier Liability programs
- Paid \$285.6 million for Medicare patient care
- Developed energy program to save hospitals \$5 million



Subrata (Rob) Chatterjee

Recordkeeping for 1.7 million people—financial yardsticks to balance the budget and pay the bills.

Every company keeps close tabs on cash flow. Especially if it pays out \$185,000 every working hour as Blue Cross of Northeast Ohio did last year.

If we are to meet our financial obligations to subscribers, suppliers and the institutions which provide health care, mountains of data must be analyzed, audited, converted, updated and reanalyzed on a regular basis.

Actuarial analyst **Subrata (Rob) Chatterjee** is one of the people who knows how to make such numbers perform for up-to-the-minute information on the Plan's financial needs. He and his colleagues guide claims experience, risk and trend factors through sophisticated formulas to establish realistic future rates.

They also find time to turn out statistical reports on the Plan's cost containment efforts and to request new computer programs which will process their numbers even faster and more accurately.

Working in another area of Finance is **Jane Jones**, one of the Cost & Compensation employees



Jane Jones

who charts day-to-day financial operations. Easy going and generous with courtesy to fellow employees, Jane is still a careful monitor of the money allotted for Plan operations. She and other Finance employees are key reasons why only 4.5 cents of every income dollar went to internal operation in 1979 while the other 95.5 cents—\$346 million—was paid for the care of subscribers.

To monitor costs even more effectively, Jane's area began work last year on a computerized system for weekly disbursements ranging from salaries to phone bills and from paperclips to pencil sharpeners.

Jane also helps prepare monthly cost reports which account for every dollar received and spent.

Unseen and, for the most part, unheard are hundreds of behind-the-scenes employees serving Blue Cross of Northeast Ohio's 1.7 million self-pay and group subscribers.

They keep scores of changes in subscriber status on track each day, an enormous job. Yet each change receives personal attention from **Evelyn Zeih** and her colleagues in Membership.



Willie Mae Jacobs



Evelyn Zeih

Let's suppose John Doe changes jobs. His former employer no longer will pay for his coverage. And John may have different benefits under the contract held by his new employer. His change of status will cross several desks at Blue Cross of Northeast Ohio and Evelyn Zeih will be sitting at one of them.

A cheery woman whose hands seldom rest, Evelyn will scan John's new application card quickly. Does he need a family contract? Is he or his spouse eligible for Medicare? Has he married or divorced recently? What are the ages of his children living at home or going to school?

Checking a CRT screen for information on the type of contract offered through John's new employer, Evelyn will assign the correct group number and service code to his card. From there, the application will be punched into a computer. Soon John will receive the familiar blue and white identification card, his passport to health care.

His is only one of 6,000 application cards processed by Evelyn

and her coworkers each month for subscriber changes in status, group number or coverage.

While Membership employees change John's ID card and coverage records, **Willie Mae Jacobs** and others in the Billing & Audit department give similar, careful attention to 700,000 billing records for more than 14,000 group accounts. John Doe's name is removed from one computerized list and added to another to ensure accurate, up-to-date billing and crediting.

A trouble shooter by nature as well as by job description, Willie Mae untangles snags which may occur as 3,000 groups, representing \$12 million in premiums, are billed every working day and 12,000 invoices are reconciled each week.

With 10 years of Plan experience, Willie Mae understands how important it is for all internal departments, such as hers and Evelyn's, to cooperate in serving subscribers.

IN 1979

- Paid out \$345.6 million for non-Medicare subscriber benefits
- Returned 95.5¢ of every income dollar for subscriber care
- Averaged daily billings of \$12 million
- Processed 6,000 application cards monthly



Bill Frank



Amy Shuman



Larry Robinson

Modern work management helps to lower internal costs.

Methods analyst **Amy Schuman**, purchaser **Bill Frank**, warehouse courier **Larry Robinson**. These Blue Cross of Northeast Ohio employees never see a subscriber's name or handle a claim. Instead they serve on a team which keeps internal operations running lean and smooth.

Amy, for instance, measures the company's equipment needs and recommends cost-saving lease and purchase agreements. She also helps other employees design better work-flow patterns which permit the best use of their skills. After all, she says, a highly skilled and motivated work force is another way to keep operating costs down.

Though Amy's easy smile proves efficiency needn't be unfriendly, she is absolutely earnest about her work. One moment she discusses the importance of saving

paper in a massive paper-consuming business; next, she talks excitedly about shaping jobs for employee satisfaction, as well as productivity.

Across the hall from Amy, in Maintenance & Material Services, purchaser **Bill Frank** evaluates a dozen factors before settling on quantity with a vendor on the telephone. It is one of 25 calls he might receive on any given day, but his 22 years of experience with the Plan allows him to move quickly.

Peering over dark-rimmed glasses, Bill ticks off "best-buy" considerations—availability, delivery date, quality, shelf-life, price breaks on quantity, warehousing costs and so on.

Like Amy, he turns to paper, saying the Plan uses some 2,000 different forms and six-million sheets of blank computer stock a year. Dealing in large quantities, Bill charts impressive cost savings—\$1,650, for example, in recent printing and paper costs on just one form.

In addition to forms, 200 of the items Bill purchases are readily available to user departments from the Plan's warehouse. **Larry Robinson** helps to maintain the rigid inventory check. He, Bill and others see to it that stock shortages do not slow down operations or incur emergency purchases at higher prices.

Larry's delivery route through two office buildings also prevents stockpiling in the 175 user departments. Indeed, part of his job is keeping up with personnel changes so that he knows just where to find people within each cost center.

Ask Larry what internal cost control means and he will answer that it means people like Amy, Bill and himself who take pride in being part of a team which saves substantial dollars through careful management of internal resources.

Innovation through automation.

A data processing center is the core of today's modern society.

At Blue Cross of Northeast Ohio the responsibility to meet the Plan's never ending need for automated services rests with women and men like **Helen Kucinich**, a program analyst, and **Larry McMichael**, a computer operator.

They work to maintain an unhampered, effectively programmed and operational system. Some of their assignments during the past year have been the most challenging in the Plan's history.

Program analysts like Helen are called upon to design such varied programs as an automated membership service that provides a subscriber history in less than five seconds, paperless processing between hospitals and the company, and an informational reporting system to provide hospitals with daily statistical summaries.

As Helen transmits her ideas into computer language she knows the designs must be compatible with the computer's capabilities. That's where Larry and the operations staff take over.

Three work shifts, seven days a week, 24 hours per day, control the operation of 16 high-speed computer tape drive units capable of running 1100 programs daily. There are programs to test, online systems to maintain and ultramodern equipment to manage like the Xerox 9700 non-impact printer which transcribes to paper—bills, letters and reports.

There is the monitoring of the Plan's 9000 reel tape library housing more than 3500 miles of taped data. Larry knows what one misfiled or mislabeled tape can cost in terms of dollars, lost production time and disrupted schedules.

Without the talents of men and women like Larry and Helen and the nearly 400 other data processing specialists, the Plan would be severely handicapped. With their help we are able to offer a streamlined operation with the ability to respond efficiently and effectively to the needs of subscribers and hospitals.



Helen Kucinich



Larry McMichael

Community lifestyles —our commitment to your health.

Once, the Blue Cross symbol meant only hospitals and claim forms to most people. Today, however, we hope it also is associated with vigorous, healthy lifestyles.

Our change in image is by design. Today we are committed not only to protecting people in illness, but to visible, active programs which spread the message of healthy living.

In 1979 Blue Cross of Northeast Ohio continued to expand its public education programs to reach all segments of the population, providing youngsters and oldsters alike with a wide range of health-oriented activities and materials.

Last year our employees could be found staffing information booths at local trade and civic shows, such as the Lorain County and Cleveland home and flower shows...volunteering their services to speak to community organizations on health-related topics...presenting health and nutrition programs to young school children...assisting with a multitude of Plan-sponsored conferences and events such as Health Fair '79.

It was gratifying to see Golden Agers in high spirits as they gathered to celebrate Senior Citizens Day at the Health Fair in Cleveland's Public Hall. In all, some 85,000 people visited booths at Public Hall and at two other Fair sites to receive free testing and an array of literature on health problems and prevention.

Sport activities also captured the attention of every age group. The Plan helped sponsor the televised Senior Citizens Olympics, proving oldsters can enjoy a vigorous regimen despite their years.

For younger adults there was the Health Run Spectacular, including for the first time three divisions for the handicapped.

Physical fitness enthusiasts were also treated to a new dimension in exercise with the opening of the 1.4-mile Parcourse in Cleveland's Metroparks Rocky River Reservation. Even before the course was completed, it had drawn the support of print and broadcast news media and hundreds of people to its 18 exercise stations.

There was also a stepped-up educational commitment to community leaders. Business, civic and health care officials demonstrated enthusiastic support for such Plan conferences and seminars as the annual Health Educational Series and Regional Forums.

One of the most impressive undertakings was the establishment of the Greater Cleveland Coalition on Health Care Cost Effectiveness. The Plan joined a diverse group of academic, professional, labor and industrial leaders to promote public cooperation in controlling health care costs.

In an accelerated literature program, the Plan distributed thousands of free publications to the public on topics ranging from stress to drug abuse to exercise. Notably, the Plan was among the first in the country to distribute information on Medicare in five foreign languages.

An award from the Cleveland Area Citizens League for Nursing best sums up the Plan's achievements in 1979—it was for our contributions to greater health awareness in the community.

And that's exactly what we set out to do.

Helping our communities to practice healthy lifestyles has become an important commitment for Blue Cross of Northeast Ohio.

Today more than ever before, the public—from the very young to the elderly—is learning how to make intelligent decisions in the proper care of itself.

Through our health education seminars, running clinics, Health Fairs, exercise courses and health care literature, we are proud of our efforts to help make health awareness the concern of everyone.





Blue Cross of Northeast Ohio Executive Staff



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Senior Vice President
Provider & Internal Relations



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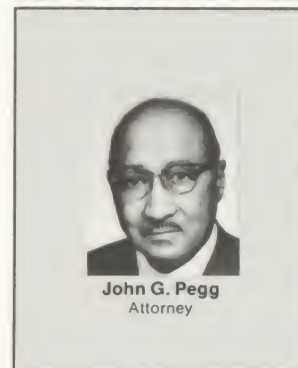


Mel J. Witt
President,
Cleveland AFL-CIO



LeRoy G. Wright
Public Relations
Consultant

In Memoriam



John G. Pegg
Attorney

1972-1979

Report of Independent Certified Public Accountants

To the Board of Trustees
Blue Cross of Northeast Ohio
Cleveland, Ohio

We have examined the balance sheets of Blue Cross of Northeast Ohio, an Ohio corporation not for profit, as of December 31, 1979 and December 31, 1978, and the related statements of operations and unassigned reserves and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 23, 1979, our opinion on the 1978 financial statements was qualified because of the effect of presenting the financial statements in conformity with accounting practices prescribed by the Department of Insurance of the State of Ohio. Since that time it has been determined that the effect of this presentation does not result in any significant differences from presenting the financial statements in accordance with generally accepted accounting principles. Accordingly, our present opinion on the 1978 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly the financial position of Blue Cross of Northeast Ohio at December 31, 1979, and December 31, 1978, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cleveland, Ohio
February 29, 1980

Coopers & Lybrand

Financial Summary 1979 of Blue Cross of Northeast Ohio

Balance Sheet

For the years ended December 31, 1979 and 1978

	1979	1978
Assets:		
Cash and Secured Deposits	\$ 11,763,305	\$ 12,842,513
Investments	119,408,257	89,508,841
Accrued Interest Receivable	2,463,426	1,675,327
Amounts Due from Subscribers	49,480,004	45,225,922
Miscellaneous Accounts Receivable	7,930,590	7,573,081
Fixed Assets—Net	3,623,153	2,614,868
	<u>\$ 194,668,735</u>	<u>\$ 159,440,552</u>
Liabilities and Reserves:		
Incurred Claims Unpaid	\$ 49,908,577	\$ 53,318,452
Other Accounts Payable	30,816,630	32,279,718
Unearned Income	9,079,883	16,489,102
Liability for Group Rate Credits	12,338,382	7,471,742
Reserves and Unassigned Funds	92,525,263	49,881,538
	<u>\$ 194,668,735</u>	<u>\$ 159,440,552</u>

Statement of Income and Expense

For the years ended December 31, 1979 and 1978

	1979	1978
Earned Income from Subscribers	\$ 395,641,700	\$ 363,408,321
Other Income	8,967,158	6,787,576
	<u>404,608,858</u>	<u>370,195,897</u>
Claims Incurred	345,677,795	343,665,694
Administrative Expenses Incurred	17,618,189	16,897,382
	<u>363,295,984</u>	<u>360,563,076</u>
Change in Reserves and Unassigned Funds—Operations	41,312,874	9,632,821
Adjustment for:		
Liability for Group Rate Credits	(4,866,640)	(4,643,084)
Unrealized Capital Loss	(104,869)	(7,321)
Special Fund Reserve	(208,124)	(73,578)
Change in Method of Recording Unearned Income and Interest Liability	6,510,484	
Net Change in Reserves and Unassigned Funds ..	<u>\$ 42,643,725</u>	<u>\$ 4,908,838</u>

Above figures are filed with the Director of Insurance of the State of Ohio in the Annual Statement of Blue Cross of Northeast Ohio for the year ended December 31, 1979.

Statement of Admitted Assets, Liabilities and Reserves

For the years ended December 31, 1979 and 1978

	1979	1978
Assets:		
Cash and Cash Equivalents	<u>\$ 11,763,305</u>	<u>\$ 12,842,514</u>
Investments:		
United States Government Securities, at Amortized Cost (Market Value, 1979—\$96,786,300; 1978—\$66,946,150)	102,916,847	70,068,086
Public Utility and Industrial Bonds, at Amortized Cost (Market Value, 1979—\$11,495,500; 1978—\$15,293,750)	14,727,956	17,466,870
Common Stock, at Market (Cost 1979—\$1,936,164; 1978—\$2,041,726)	1,700,954	1,911,384
Real Estate, at Cost	62,500	62,500
	<u>119,408,257</u>	<u>89,508,840</u>
Accrued Investment Income	2,463,426	1,675,327
Accounts Receivable:		
Local Group Subscribers	10,942,510	11,971,093
National Group Subscribers	38,366,701	33,088,042
Inter-Plan Services Benefit Bank	5,111,790	4,928,649
Other	2,624,709	2,446,335
	<u>57,045,710</u>	<u>52,434,119</u>
Note Receivable from Member Hospital (Note 3) ..	364,884	364,884
Data Processing Equipment, Less Accumulated Depreciation of \$871,658 in 1979 and \$2,457,818 in 1978	3,623,153	2,614,868
Total Assets	<u>\$ 194,668,735</u>	<u>\$ 159,440,552</u>
Liabilities:	1979	1978
Incomplete, Undischarged and Unreported Cases, less Current Financing Deposits, 1979—\$15,166,307; 1978—\$14,699,355	\$ 43,339,793	\$ 42,560,945
Estimated Claims Pending Settlement, Less Partial Payments, 1979—\$2,404,916; 1978—\$983,394	6,568,784	10,757,506
Unpaid Claim Adjustment Expense	2,708,100	2,681,900
Accounts Payable and Accrued Liabilities	28,108,530	29,597,819
Unearned Subscriber Premiums (Note 2)	9,079,883	16,489,102
Group Rate Credit Liability	12,338,382	7,471,742
Total Liabilities	<u>102,143,472</u>	<u>109,559,014</u>
Reserves:		
Special Fund Reserves	43,297	251,422
Valuation Reserve for Bonds	9,363,003	5,295,056
Group Rate Credit Reserve	26,302,737	26,610,300
Unassigned Reserves	56,816,226	17,724,760
Total Reserves (Note 4)	<u>92,525,263</u>	<u>49,881,538</u>
Total Liabilities and Reserves	<u>\$ 194,668,735</u>	<u>\$ 159,440,552</u>

Statement of Operations and Unassigned Reserves

For the years ended December 31, 1979 and 1978

	1979	1978
Earned Premiums from Subscribers	<u>\$ 395,641,700</u>	<u>\$ 363,408,321</u>
Claims Incurred	<u>345,677,795</u>	<u>343,665,694</u>
Administrative Expenses (Note 6)	<u>17,618,189</u>	<u>16,897,383</u>
	<u>363,295,984</u>	<u>360,563,077</u>
Excess of Subscriber Revenues over Expenditures	32,345,716	2,845,244
Revenue from Accounting Changes (Note 2)	6,510,484	
Investment Income	9,527,948	6,337,856
Other (Expense) Income	(560,790)	449,721
Excess of Revenues over Expenditures	47,823,358	9,632,821
Unassigned Reserves, Beginning of Year	17,724,760	26,642,111
Transfers (to) from Other Accounts:		
Group Rate Credit Liability	(4,866,640)	(4,643,084)
Group Rate Credit Reserve	307,563	(9,988,230)
Valuation Reserve for Bonds	(4,067,947)	(3,902,047)
Special Fund Reserves		(9,490)
Adjustment of Common and Preferred Stock		
Carrying Value for Market Value Decrease	(104,868)	(7,321)
Unassigned Reserves, End of Year	<u>\$ 56,816,226</u>	<u>\$ 17,724,760</u>

Some Selected Statistics	1979	1978	Medicare Disbursements:
Inpatient Cases	174,845	181,688	
Average Length of			
Inpatient Stay	7.50 Days	7.52 Days	1966 \$ 11,786,716
Outpatient, X-ray, Laboratory			1967-69 166,669,187
and Other Diagnostic Cases	276,723	254,414	1970-71 160,111,390
Outpatient Surgery Cases .	24,221	21,155	1972-73 181,074,720
Outpatient Treatment Cases	18,190	16,564	1974-75 281,556,553
Outpatient Accident Cases .	183,183	191,897	1976 181,249,470
Disbursement for:			1977 216,828,559
Prescription Drug Program	\$10,214,908	\$ 8,522,187	1978 257,457,394
Major Medical	2,460,261	2,033,929	1979 285,590,334
Catastrophic	1,202,905	869,332	Total: \$1,742,324,323

Statement of Changes in Financial Position

For the years ended December 31, 1979 and 1978

	1979	1978
Cash Was Provided by:		
Operations:		
Excess of Revenues over Expenditures	\$ 47,823,359	\$ 9,632,821
Less, Investment Income	(9,527,948)	(6,337,856)
Transactions Not Requiring Cash:		
Depreciation Expense	761,010	873,628
Increase (Decrease) in:		
Incomplete, Undischarged and		
Unreported Cases	778,848	13,700,378
Estimated Claims Expense		
Pending Settlement	(4,188,722)	2,742,206
Unpaid Claim Adjustment Expense	26,200	375,200
Accounts Payable and Accrued Liabilities	(1,489,289)	7,504,476
Unearned Subscriber Premiums	(7,409,219)	2,039,940
(Increase) in:		
Accounts Receivable	(4,611,591)	(5,062,987)
Cash Provided from Operations	<u>22,162,648</u>	<u>25,467,806</u>
Investments:		
Investment Income	9,527,948	6,337,856
Transactions Not Requiring Cash:		
Accrued Investment Income	(788,099)	(631,982)
Gain on Sale of Investments	(5,335)	(14,905)
Amortization of Discounts	(41,237)	(197,637)
Cash Provided from Investments	<u>8,693,277</u>	<u>5,493,332</u>
Proceeds from Disposition of Equipment	1,995,241	
Proceeds from Collection of Investment Loan ..		300,000
Proceeds from Disposition of Bonds and Stocks	<u>27,226,541</u>	<u>18,788,635</u>
Total Cash Provided	<u>60,077,707</u>	<u>50,049,773</u>
Cash Was Applied to:		
Purchase of Bonds and Stocks	57,184,255	42,260,914
Purchase of Data Processing Equipment	3,764,536	285,691
Note Receivable from Member Hospital		364,884
Special Fund Reserve	<u>208,125</u>	<u>73,578</u>
Total Cash Applied	<u>61,156,916</u>	<u>42,985,067</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,079,209)	7,064,706
Beginning Balance in Cash and Cash Equivalents	<u>12,842,514</u>	<u>5,777,808</u>
Ending Balance in Cash		
and Cash Equivalents	<u>\$ 11,763,305</u>	<u>\$ 12,842,514</u>

Notes to Financial Statements

These accompanying notes are an integral part of the financial statements.

1. Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared in conformity with accounting practices prescribed by the Department of Insurance of the State of Ohio. These practices do not result in any significant differences from generally accepted accounting principles.

Investments—United States government securities and public utility and industrial bonds are carried at amortized cost. A valuation reserve has been provided based on the difference between the carrying value and market value. Common and preferred stock are carried at market value and adjustments to reflect the net unrealized gain or loss from cost to market are made directly to unassigned reserves. Dividends and interest from investment securities are recorded on an accrual basis.

Equipment and Improvements—The Plan charges expenditures for furniture, fixtures and leasehold improvement to operations as incurred, in accordance with policies prescribed by the Department of Insurance of the State of Ohio. Purchases of computer and peripheral equipment are recorded as assets and amortized over their estimated useful lives using the straight line method.

Subscriber Premiums—Group subscribers are billed on a monthly, quarterly or semiannual basis in advance of their respective coverage periods. Subscriber premiums are reported as earned during the period of coverage.

Incomplete, Undischarged and Unreported Cases—The liability for incomplete, undischarged and unreported cases includes an estimate based on claims payment experience for claims incurred on or prior to the balance sheet date, and not paid as of the balance sheet date. The methods utilized in determining estimates are continually reviewed and any adjustments resulting therefrom are reflected in operations currently.

Estimated Claims Pending Settlement—Final settlements with contracting hospitals providing services for the Plan's members are based on revenue and cost data reported annually by the hospitals and audited by the Plan. Prior to audit, claims are paid at tentative rates. This liability is an estimate of the additional amounts due providers to adjust tentative payments to audited costs.

Unpaid Claims Adjustment Expense—The liability for unpaid claims adjustment expense represents the estimated costs of processing claims incurred but unpaid at the balance sheet date.

Group Rate Credit Reserves—In accordance with the Blue Cross and Blue Shield Accounting Committee guidelines on accounting for experience rated groups, the Plan has established a reserve for future adverse claims experience. The Department of Insurance has ruled that the portion of the reserve which exceeds 15% of the experience rated groups' premium income for the current period should be recorded as a liability.

2. Revenue from Accounting Changes:

During 1979, the Department of Insurance of the State of Ohio conducted an examination of the financial condition of the Plan. The Department requested the Plan to establish a procedure to more accurately reflect the unearned subscriber premiums and to accrue a liability for interest on advance premium accounts. The effect of these changes was to increase the 1979 excess of revenue over expense by \$6,510,484.

3. Note Receivable from Member Hospital:

Because of a continuing loss experience, Polyclinic Hospital decided in 1978 to close its facilities and merge with Womans General Hospital. As part of its cost

containment program, the Plan made a loan to Polyclinic to accelerate the closing and thereby reduce patient reimbursement costs. The loan which was to be repaid by June 30, 1979, bears no interest and is collateralized by the hospital's real property and equipment. Collection is anticipated when the collateral is sold.

4. Hospital Reimbursement Formula:

Under the Agreement for Reimbursement with hospitals, the Plan may limit payments to hospitals if total reserves should decline to less than one-half of subscriber income for the preceding month. At December 31, 1979 and 1978 the total reserves were \$75,080,142 and \$34,606,593 in excess of the one-half month requirement, respectively.

5. Fiscal Intermediary:

Under an agreement with Blue Cross Association, the Plan serves as a fiscal intermediary to providers of hospital and extended care facility services under the Medicare program. The Plan paid to providers of services approximately \$286,757,000 in 1979 and \$264,335,000 in 1978. Since payments for services are made from funds supplied by the U.S. government, no receipts, disbursements, cash balances or liabilities to providers of services are included in the financial statements.

6. Expense Reimbursement:

The Plan receives reimbursement from Blue Shield, the government and other sources for administrative expenses incurred in performing services for those agencies. The recorded expenses, which are deducted from administrative expenses as service credits, were \$10,804,703 in 1979 and \$9,810,859 in 1978. It is not expected that any adjustments which might be required after government or other agency audits of 1979 and 1978 will be material in amount.

7. Retirement and Investment Plans:

A noncontributory retirement plan is in force for all employees meeting certain minimum age and employment requirements. Pension expense totaled, \$1,070,763 in 1979 and \$785,180 in 1978, which included a provision for normal cost and amortization of unfunded prior service cost over 25 years. The policy of the Plan is to fund pension costs accrued. Based on the November 1, 1978 actuarial valuation, there were no unfunded vested benefits and the unfunded past service liability was \$2,220,600.

In addition to the retirement plan described above, there exists a matched savings investment plan for all employees. Employees may contribute from 2 to 5% of their regular base compensation, which contributions will be matched by the Plan. During 1979 and 1978, the Plan contributed \$225,065 and \$219,975, respectively.

8. Leases:

Total rent expense for the years ended December 31, 1979 and 1978 amounted to \$2,694,967 and \$2,705,105, respectively. The minimum annual rentals under non-cancelable operating leases as of December 31, 1979 are as follows:

1980	\$1,004,881
1981	937,033
1982	832,790
1983	828,170
1984	726,559
Later years	<u>2,663,970</u>
	<u>\$6,993,403</u>

The noncancelable operating leases contain certain renewal options which vary from one to five years.

Member Hospitals

ASHLAND COUNTY

Kettering Hospital, Inc.
Samaritan Hospital

ASHTABULA COUNTY

Ashtabula General Hospital
Brown Memorial Hospital
Memorial Hospital of Geneva

CUYAHOGA COUNTY

Cleveland
Booth Memorial
Cleveland Clinic
Cleveland Metro
General/Highland View
Cleveland Psychiatric Institute
Deaconess
Fairhill Mental Health Center
Fairview General
Grace Hospital
Kaiser Foundation
Lutheran Medical Center
Mt. Sinai
St. Alexis
St. John
St. Luke's
St. Vincent Charity
Shaker Medical Center
University Hospitals of Cleveland
Womans General
Woodruff

CUYAHOGA COUNTY

Suburban
Bay View
Brentwood
Community Hospital of
Bedford, Inc.
Euclid General
Hillcrest
Huron Road
Lakewood
Marymount
Parma Community
Richmond Heights General
Ridgecliff
Southwest General
Suburban Community
Windsor

GEAUGA COUNTY

Geauga Community

HURON COUNTY

Williard Area

LAKE COUNTY

Lake County Memorial—East
Lake County Memorial—West
Northeast Ohio General

LORAIN COUNTY

Allen Memorial
Amherst
Elyria Memorial
Lorain Community
St. Joseph
Wellington Community

MEDINA COUNTY

Lodi Community
Medina Community
Wadsworth-Rittman

PORTAGE COUNTY

Robinson Memorial

RICHLAND COUNTY

Mansfield General
People's Hospital, Inc.
Richland Neuropsychiatric
Shelby Memorial

WAYNE COUNTY

Dunlap Memorial
Wayne General
Wooster Community

Member Skilled Nursing Facilities

ASHTABULA COUNTY

Geneva Medi-Care Nursing Center

CUYAHOGA COUNTY

Cleveland
Aristocrat West
Euclid Manor Nursing Home
Jewish Convalescent Institution
Jones Nursing Home
Laub Pavilion
Medi-Care Nursing Home, Inc.
Overlook House
Rose Park Convalescent &
Rehabilitation Center, Inc.
St. Augustine Manor
Valley Springs Health Center

CUYAHOGA COUNTY

Suburban
Aristocrat Lakewood Nursing Home
Aristocrat South
Beach Haven Health Care Center
Broadview Nursing Home, Inc.
Euclid General Hospital
—Extended Care Unit
Gates Mills Manor
Lutheran Home for the Aged
Manor Care—North Olmsted
Margaret Wagner House
Oakridge Home, Inc.
Park Rehabilitation Center
Pleasantview Nursing Home
Stoney Hill Health Center, Inc.
Suburban Pavilion, Inc.
Sunny Acres Unit, Cuyahoga
County Hospital
Whitecliff Manor Nursing Home
Wright Nursing Center

GEAUGA COUNTY

Heather Hill, Inc.

LAKE COUNTY

Western Reserve Extended Care, Inc.

LORAIN COUNTY

Good Samaritan Nursing Home

MEDINA COUNTY

Shangri-La Rest Home, Inc.
Wadsworth Health Care Center, Inc.

PORTAGE COUNTY

Anna Maria of Aurora, Inc.
Jane Francis Nursing Home

RICHLAND COUNTY

Geriatric Center of Mansfield
Memorial Homes, Inc.

SUMMIT COUNTY

Barberton Manor
Cuyahoga Falls Country Place
Edwin Shaw Hospital
Fairlawn Chateau
Little Forest Medical Center
Manor Care Akron Nursing Home
Medicenter of America
Middlebury Manor Nursing &
Convalescent Home
Pearlview Skilled Nursing Home

WAYNE COUNTY

Smithville—Western Care Center

On an annual basis, Blue Cross of Northeast Ohio prepares a formal Affirmative Action Program designed to benefit all employees without regard to race, color, sex, age, national origin or religion. Our dedication to the employment and advancement of females and minorities is reinforced through meaningful programs, policies, goals and timetables and a continuous self-evaluation process to monitor progress.

In addition, individual affirmative action programs which support our belief in the employability and advancement of handicapped persons, Vietnam-era veterans and disabled veterans are also designed and implemented annually.

The right of all persons to be employed and advance in employment on the basis of merit, ability and potential continues to be of prime concern at Blue Cross of Northeast Ohio.



Blue Cross
of Northeast Ohio

Blue Cross Association

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